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UNCLAS SECTION 01 OF 02 TEGUCIGALPA 000618

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SUBJECT: TFH01: HONDURAN COUP: DONORS EVALUATING ASSISTANCE

REF: SECSTATE 69222

¶1. (SBU) Summary: Donors are evaluating their assistance to Honduras in the wake of the June 28 coup and subsequent suspension of Honduras from the OAS. All members of the G-16 group of official donors to Honduras, with one exception, have suspended communication with the de facto interim government; some continue exchanges at the technical level. But so far only Sweden and the U.S. have officially announced suspension of most direct assistance to the GOH. The World Bank, Central American Bank for Economic Integration and Inter-American Development Bank have suspended disbursements and new loans. IMF assistance had already been suspended for technical reasons. All donors providing assistance for elections appear to be committed to continuing that assistance. End Summary.

¶2. (U) Local representatives of members of the G-16 donor group contacted by Embassy -- Canada, Spain, Sweden, France, Germany, Switzerland, Italy and Japan -- all reported they are reviewing the status of their assistance programs to Honduras in light of the June 28 coup that removed President Manuel "Mel" Zelaya. Only Sweden has cut off any funding to date, and none has made a final decision regarding its aid programs. Germany and Switzerland have suspended planning and development of new projects.

¶3. (U) Canada, Spain, Sweden, France, Germany, Switzerland, Italy and Japan have all suspended communication with the interim government. Spain and France recalled their ambassadors (though Spain is considering allowing its ambassador to return), and Sweden has restricted the travel of its regional ambassador to Honduras. The Italian and German ambassadors have departed because their terms ended, and in both cases arrival of replacements is being delayed. Japan has not recalled its ambassador.

¶4. (U) Sweden suspended USD 572,000 of direct budget support to the GOH. Swedish support focused on human rights and good governance will continue as usual for the time being. Status of those programs will depend in part on what other donors do.

¶5. (U) Canada had programmed USD 24 million for fiscal 2009 (March 2009 to March 2010), covering health, education, and rural development. Spain had planned to provide USD 16.8 million, mainly humanitarian aid. Germany had committed USD 161. million for 2009-2011 and planned to provide about USD 7 million of that in 2009. German programs cover basic education, environmental policy, protection and sustainable use of natural resources and sustainable development. Japan had budgeted USD 20 million for 2009, for disaster mitigation, education, health, climate change, poverty reduction, agriculture, energy, security and justice,

decentralization, water and sanitation and other infrastructure development.

¶6. (U) The United Nations is continuing ongoing projects with non-central governmental partners (including civil society and municipalities) and assistance to the Honduran Elections Tribunal (TSE) and the National Registry of Persons (RNP). Distributions that had already been planned will continue, but there will be no new agreements with or new payments scheduled to the central government. While all communication with the de facto government has been suspended, the UN Resident Representative will remain in-country.

¶7. (U) The European Commission will continue project assistance, but budget support, which was suspended months ago because Zelaya would not submit a 2009 budget, remains on hold and is under review. Minister-level contact with the de facto government has been suspended, but contact with everyone from Vice Minister-level and below is permitted. The Resident Representative will remain in country, and contact continues at the technical level. EC assistance in 2009 was to total about USD 49 million, including approximately USD 8.4 million in budget support and project funding for local development, education, health, poverty reduction, renewable energy, justice and security, microfinance, natural resource management and youth.

¶8. (U) The World Bank has put approximately USD 40 million of disbursements for the rest of 2009 on hold, and no new projects are being presented to the Board of Directors at this time. Affected sectors include transportation

TEGUCIGALP 00000618 002 OF 002

infrastructure, rural health, school feeding, rural infrastructure and disaster mitigation. Additionally, the suspension will cause the GOH to breach many contracts with large and small businesses, which will lead to legal complaints and the bankruptcy of many of these businesses. All communication with the de facto government has been suspended.

¶9. (U) The Central American Bank for Economic Integration (CABEI) has suspended all loans to Honduras following instructions from the Central American Integration System (SICA). CABEI had anticipated disbursing USD 58.6 million for the balance of 2009, going to infrastructure and construction, social services and health and renewable energy. An additional USD 23.5 million was to be disbursed this year from trust fund activities, including on behalf of the European Union, the Global Environment Facility (GEF) and Spain.

¶10. (U) The Inter-American Development Bank (IDB) has suspended all loans following the OAS decision to suspend Honduras. All communication with the de facto government has been halted, but resident representative will stay for the time being. IDB's main projects include roads, ports, conditional cash transfers, tourism and energy.

¶11. (U) The International Monetary Fund (IMF) had already suspended assistance to the GOH because the GOH was not in compliance with terms of eligibility for financing. All communication with the de facto government has been suspended.

¶12. (SBU) Comment: Major Western donors are showing solidarity in the wake of the June 28 coup by evaluating their portfolios and holding off on new non-humanitarian disbursements. Most EU countries have withdrawn their ambassadors, though the EC maintains high-level contact with the de facto regime. How long they will be able to maintain this stance if the de facto regime establishes itself for the long haul is another question. The EU country representatives and the EC representative are meeting July 16 to arrive at a common stance among member countries and all are aware of the urgency of maintaining pressure on the

Micheletti regime to negotiate in good faith. End Comment.
LLORENS